



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: February 21, 2001 REPORT NO. 01-035

ATTENTION: Honorable Mayor and City Council
Docket of February 27, 2001

SUBJECT: Lease Agreements (Parking) with LandGrant Development for the International Gateway of the Americas Project (Lease 1:Parcels B and C; Lease 2: Parcel A) in the San Ysidro Redevelopment Project Area (Council District 8)

REFERENCE: Manager's Reports No. 00-247, dated November 15, 2000; RA 00-19, dated November 15, 2000; RA-00-3, dated February 16, 2000; RA-98-4, dated May 6, 1998; and RA-97-8, dated July 11, 1997

SUMMARY

Issues - Should the City Council authorize the City Manager to enter into two Lease Agreements ("Agreements") with LandGrant Development to lease sections of the International Gateway of the Americas retail shopping center parking lots (Lease 1 for Parcels B and C; and Lease 2 for Parcel A) for Park and Ride facilities, using a portion of the sales tax revenues generated by improvements to the property, for a term not to exceed 30 years?

Manager's Recommendation - Authorize the City Manager to enter into two Lease Agreements with LandGrant Development to lease sections of the International Gateway of the Americas shopping center parking lots (Lease 1 for Parcels B and C; and Lease 2 for Parcel A) for Park and Ride facilities.

Other Recommendations - None.

Fiscal Impact - The total lease price will be \$8,418,000 for Lease 1 (Parcels B and C) and \$6,306,000 for Lease 2 (Parcel A.) The unpaid portion of the leases will bear interest at 10 % per annum for the First Tier Base Rent (\$5,989,000 for Lease 1; and \$1,145,000 for Lease 2) and 6% per annum for the Second Tier Base Rent (\$2,429,000 for Lease 1; and \$5,161,000 for Lease 2.) The maximum total cost to the City, including interest, has been established at \$24,353,190 for Lease 1 and \$14,892,060 for Lease 2. Regardless of whether or not the balance is paid in full, the obligation will terminate after the 30th year

from the payment commencement date. The Park and Ride facilities will be available for 30 years. The City must receive a Certificate of Completion for not less than 200,525 for Lease 1 and 157,950 for Lease 2 square feet of retail space (325,289 square feet for Lease area 1 and 307,406 square feet for Lease area 2 of retail space was permitted under the recently approved permits.) Revenue for these payments will come only from the increased sales taxes generated by the redevelopment of the site and are expected to be \$1,105,807 for Lease 1 and \$797,400 for Lease 2. The annual lease payment will be \$811,773 for Lease 1 and \$496,402 for Lease 2.

Environmental - The City Council as Lead Agency under CEQA has reviewed and considered an Environmental Impact Report, dated March 1996 and adopted April 2, 1996 by Resolution No. R-287149, and a Mitigated Negative Declaration, dated April 24, 1998 and adopted May 12, 1998 by Resolution No. R-290105, covering this activity.

BACKGROUND

On July 15, 1997, the Redevelopment Agency entered into an Exclusive Negotiating Agreement (ENA) with LandGrant Development to prepare a Disposition and Development Agreement (DDA) for the International Gateway of the Americas (IGA) Project in the San Ysidro Redevelopment Project Area.

On May 12, 1998, the Redevelopment Agency entered into a DDA with LandGrant for the IGA Project. The DDA provided for LandGrant to build 1.4 million square feet of retail, office and hotel uses on approximately 67 acres of land they controlled through a joint venture partnership and/or the Agency agreed to assist in acquiring, if necessary, adjacent to the west of the old Virginia Avenue commercial Port of Entry. The project also proposed a river pedestrian bridge to Tijuana, Mexico, with associated federal inspection facilities. The project was to have a value of \$192,044,000. The DDA provided for the Agency to assist the development through a land purchase and sale arrangement. In addition, the City was asked to participate by entering into public-use leases for public parking lots for Parcels A, B and C, and public works financing agreements to finance the off-site public improvements, both to be paid with sales tax revenues generated from the project. (The public works financing agreements were eliminated as part of the First Implementation Agreement.)

On February 22, 2000, the Redevelopment Agency entered into the First Implementation Agreement with LandGrant. The First Implementation Agreement provided for the Developer to proceed with the first phase of the project ahead of the anticipated International Bridges and Border Commission authorization of the River Pedestrian Bridge. The first phase consists of 654,830 square feet of retail and restaurant commercial development located on approximately 57 acres of the 67 acre site (also known as Parcel A, B and C in the DDA.)

On November 21, 2000, the City Council and the Redevelopment Agency approved the Discretionary Permits for the first phase of the International Gateway of the Americas (IGA)

Project on DDA Parcels A, B and C; approved the Second Implementation Agreement; and a Cooperation Agreement between the City and the Agency. The Second Implementation added more off site public improvements required by the project and shifted the responsibility to pay for some of those improvements to the Redevelopment Agency. The Cooperation Agreement acknowledged and approved the shift of responsibility from the Developer to the Agency.

On September 22, 1998, the cities of San Diego and Tijuana made a joint presentation to the International Bridges and Border Commission (IBBC) for permission to build a river pedestrian bridge connecting Louisiana Avenue and Avenida Revolucion. City representatives flew to Mexico City on November 6, 1998, to exchange information with Mexican federal agencies regarding this project. The City of San Diego followed-up those meetings with a formal application for a Presidential Permit on January 21, 1999. On March 11, 1999, the City of San Diego made a presentation to the United States State Department and other federal agencies in Washington D.C., supporting this project. On April 27, 1999, in Matamoros, Mexico, the City and LandGrant again presented materials to the IBBC and, on October 25, 1999, LandGrant attended the IBBC meeting in El Paso, Texas. On March 7, 2000, the IBBC hosted a Binational Border Walk in Tijuana and toured the IGA site. LandGrant again attended the IBBC spring and fall meetings in 2000. Results of these meetings, and others, have been both positive and encouraging. City staff and LandGrant expect to be successful in obtaining the authorization to construct the River Pedestrian Bridge over the next two or three IBBC meetings, which are held every six months.

DISCUSSION

As noted above, at the time the DDA was approved by the City and Agency, the City was informed that it would be asked to enter into Public Use Lease Agreements for public parking lots. The Public Use Lease Agreements will assist in the development of the project. This new development will increase sales tax revenues to the City and provided employment opportunities in the community.

The City is proposing to lease portions of the parking lots for Park and Ride Facilities. Approximately 635 spaces will be provided on Parcels B and C (Lease 1) and 455 spaces will be provided on Parcel A (Lease 2) which will be available for 30 years. The leases will commence on the July 1 of the year following the fiscal year the private improvements on the Parcels and the parking facilities are completed.

Annual installment payments will be in the amount of \$811,773 per year for Lease 1 and \$496,402 per year for Lease 2, provided that the development generates at least that amount of sales tax revenues to the City. Currently it is estimated that the development on Parcel B and C will generate \$1,105,807 and Parcel A will generate \$797,400 per year to the City. The amount of sales tax received by the City exceeding the annual payment amount will go into a City held reserve account until such reserve account equals \$1,411,904 for Lease 1 and \$588,096 for Lease 2. The reserve account shall be used to supplement the annual lease payment in any year that the

sales tax revenue does not cover the lease payments. The reserve is a one time only amount, if funds are withdrawn to supplement an annual lease payment the reserve account is not replenished. In other words, the maximum amount the City must guarantee for lease shortfalls is \$1,411,904 for Lease 1 and \$588,096 for Lease 2 and only from a reserve built up from project generated sales tax revenues with respect to the parcels. At the end of the 10th lease year, or the year after the sales tax revenues to the City is greater than 1.5 times the Annual Rent, the reserve may be reduced to an amount equal to the annual rent (\$811,773 for Lease 1 and \$496,402 for Lease 2.)

ALTERNATIVE

Do not authorize the City Manager to enter into the Lease Agreements with LandGrant Development. This alternative would allow the Developer to terminate the DDA, thereby stopping the development of the project. No tax increment revenues would be generated to the Agency, nor would sales tax revenues be generated to the City. There would be no jobs generated for the community and the land would continue to remain vacant until such time as some developer wished to attempt another development.

Respectfully submitted,

Hank Cunningham
Director
Community and Economic Development

Approved: Bruce A. Herring
Deputy City Manager

CUNNINGHAM/PKH

Note: The attachment is not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment(s): 1. Lease Agreement